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AN ANALYSIS OF BUDGET EXECUTION IN ZIMBABWE AND SUGGESTED IMPROVEMENTS

by

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**AN ANALYSIS OF BUDGET EXECUTION IN ZIMBABWE AND SUGGESTED
IMPROVEMENTS**

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

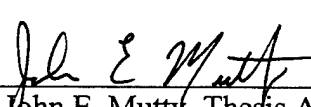
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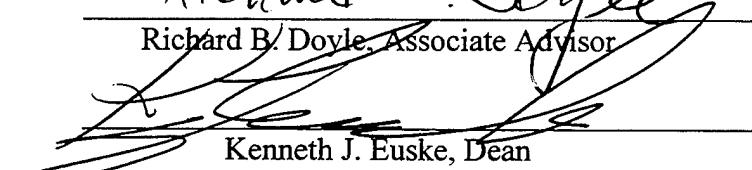
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ABSTRACT

In Zimbabwe, the Government has been experiencing problems with budget formulation and control of expenditures by Ministries and departments. Through the adoption of a three-year-rolling budget in 1995, ministries were forced to forecast, focus and justify their requirements hence better planning. Despite this forward planning approach, budget execution problems have persisted as evidenced by over-expenditures, fraudulent activities and other related problems leading to centralize expenditure control at the Central Payments Office (CPO). The persistence of the problems led to the introduction of a Public Finance Management System (PFMS) starting in 2001.

This thesis aims to contribute towards finding a solution to the persistent budget execution problems. It describes important budget formulation and execution processes, statutes and organizations and their functions. The analysis shows that there is need to change the current system of doing business. Finally, it concludes by recommending that some statutes be changed and that new processes incorporating appropriate information technology (IT) be adopted.

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LIST OF ABBREVIATIONS AND ACRONYMS

AFZ	-	Airforce of Zimbabwe
BES	-	Budget Estimates Submission
C & AG	-	Comptroller and Auditor General
CAFZ	-	Commander Airforce of Zimbabwe
CDF	-	Commander Defense Forces
CGE	-	Central Government Expenditure
CPO	-	Central Payment Office
CRF	-	Consolidated Revenue Fund
CZNA	-	Commander Air Force of Zimbabwe
DFAS	-	Defense Finance and Accounting Service
DoD	-	United States Department of Defense
EFT	-	Electronic Funds Transfer
FASTDATA	-	Fund Administration and Standardized Document Automation
FMS	-	Financial Management System
FYDP	-	Future Years Defense Program
GNP	-	Gross National Product
GTB	-	Government Tender Board
IDC	-	Inter-Departmental Certificate
IMF	-	International Monetary Fund
IT	-	Information Technology

ME	-	Military Expenditure
MOFA	-	Minister of Finance and Economic Development
MOFED	-	Ministry of Finance and Economic Development
NDP	-	National Defense Policy
NEPC	-	National Economic Planning Commission
PAYE	-	Pay As You Earn
PFMS	-	Public Financial Management System
POM	-	Program Objective Memorandum
PPBS	-	Planning, Programming and Budgeting System
RENAMO	-	Mozambique National Resistance
ZDF	-	Zimbabwe Defense Forces
ZNA	-	Zimbabwe National Army

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I. INTRODUCTION

A. BACKGROUND

Zimbabwe is a developing country that attained independence from Britain in 1980. Since then, Government operations have expanded extensively leading to more business with the private sector. This expansion is evidenced by increased expenditures in infrastructure development, public education and health, national security and public owned enterprises.

The expansion of operations has not been matched with efforts to handle the increase in business, resulting in poor Government performance. This poor performance has manifested itself through delays in paying suppliers, over-expenditure by ministries and departments, fraud, poor management and general deterioration in the standards of provided services.

To improve, the Government, in 1995 and 1996, introduced a Three-Year Rolling Budget and changed its financial year to coincide with the calendar year used by most private sector organizations. It also tightened the disbursement of funds through a stop payment system at the Central Payments Office (CPO) – the Government payments agent¹. It was hoped that these reforms would enable ministries to identify priorities for funding, focus on medium term goals and outputs, encourage innovative thinking and improve the management of public funds and control over-expenditures.²

¹ A stop payment system is an expenditure control measure that limits payments to amounts available in an account.

² Budget Statement 1996 – presented to Parliament by Minister of Finance on July 25, 1996.

Despite these reforms, Government performance did not improve. In a further attempt to improve the situation, effort seems now directed at improving the budget execution capacity as suggested by the allocation of a sum of Zimbabwean \$500 million³ towards a Public Finance Management System (PFMS) in 2001.⁴

B. PURPOSE

The purpose of this thesis is to describe, analyze and identify budget execution problems in Zimbabwe and suggest possible solutions.

C. SCOPE AND METHODOLOGY

This thesis deals with how the Zimbabwe Government formulates and executes its budget. Information contained in the thesis was obtained through a literature search of books, journal articles, the worldwide web and some information supplied from Zimbabwe. In describing the budget formulation and execution, the author relied solely on his experience in the Zimbabwe Defense Forces (ZDF) finance offices and interaction with the Central Payments Office (CPO) and Treasury. An analysis of the execution was done to identify underlying causes of the problems the Government is facing.

The author was not able to obtain some material, especially relating to the operations of the CPO and the Treasury because of distance. Despite this constraint, sufficient information was available to describe, analyze and to draw valid conclusions and recommendations.

³ The Zimbabwe currency is measured in dollars. To avoid confusion with situations where the United States currency is used, US\$ shall be used to denote United States currency. The exchange rate is currently \$55.00 to US\$1.00.

⁴ Budget Statement 2001 – presented to Parliament by Minister of Finance and Economic Development on November 16, 2000.

D. ORGANIZATION OF STUDY

In the second chapter, this thesis describes how the budget is formulated in Zimbabwe using the Ministry of Defense (MOD) as the vehicle. Important administrative and legislative processes, the allocation of funds to ministries and the monitoring mechanism and execution guidelines are spelled out. The formulation procedures through the Planning, Programming and Budgeting System (PPBS) as adopted by the Zimbabwe Defense Forces (ZDF) are followed by the budget structure as determined by the Treasury. This structure is applicable to all other ministries and departments. The structure forms the basis for disbursing funds and for expenditure control.

The third chapter covers how voted funds flow from the Treasury to the end users, how they are classified and the organizations which are charged with execution of budgets. The important role played by the Central Payments Office (CPO) is brought to light. At the same time, the processes carried out by various offices are described and related to Government performance. Examples of how goods and services are sourced and ultimately paid for reveal areas of weakness in budget execution.

Lastly, the fourth chapter analyzes budget execution and concludes that fundamental changes to some statutes are required and the entire execution process needs to be improved. Examples of how the United States Department of Defense (DoD) has dealt with similar problems are discussed during the analysis. The thesis ends by recommending changes to some statutes, the acquisition of better financial management resources and the development of new ways of doing business.

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II. THE ZIMBABWE BUDGETING SYSTEM

A. THE NATIONAL BUDGET

A budget is a plan of action, a statement of priorities, a technique for financial planning, and a combination of administrative and legislative processes.⁵ This definition of a budget is one of many. It has been chosen to be the framework for discussing budget management because it encompasses the major – if not all of the - aspects that are found in both public and private sector budgets. In looking at the Zimbabwe budget, I will discuss these important attributes in the following order:

- A combination of administrative and legislative processes
- A plan of action as a statement of priorities
- A technique for financial planning

It is also important to bear in mind that any budget formulation operates and is influenced by continuously changing environment, time and space. This dynamism always leads to changes in laws governing budgets, structures of the budgets and the techniques of crafting these budgets.

1. Administrative and Legislative Processes

In Zimbabwe, the Constitution of the Republic enshrines the management of government finances in sections 101 to 106.⁶ Section 103(1) requires the Minister of Finance and Economic Development (MOFA) to lay before Parliament the estimates of revenues and expenditures each year. In effect, MOFA is required to first formulate revenue collection strategies - which are appropriate and in line with the national

⁵ Hleba, T., *Practical Financial Management: A Handbook of Practical Financial Management Topics for the DoD Financial Manager*, United States Naval Postgraduate School, 2000.

⁶ Zimbabwe, Constitution of the Republic.

economic development strategy – and then estimate the amount to be collected. This information constitutes the Finance Bill for the year. Second, he proposes how he intends to appropriate the revenue to various ministries and departments. This is the Appropriation Bill for the year. The two bills are debated in Parliament, passed and signed by the President to become the Finance Act and Appropriation Act respectively.

Administratively, the Minister calls for budget submissions for the following year from various ministries and departments around September. In the meantime, within the Ministry of Finance and Economic Development (MOFED), the National Economic Planning Commission (NEPC), carries out a thorough economic analysis in consultation with all other economic stakeholders. These include the private sector, international organizations such as the International Monetary Fund (IMF), and the government. Based on the proposed budget requests from the departments and consultations with stakeholders, MOFA formulates the following year's budget in the form of the two bills mentioned above.

Two laws were passed in 1995 and 1996 aimed at improving the administration, formulation, and management of budgets. The first was the changing of the government fiscal year to coincide with the calendar year, which is used by most organizations in the country. This change created a common accounting period enabling comparisons. For MOFA, the budget proposal now has to be presented to Parliament by mid-November and signed into law before the beginning of the year.

The second was the introduction of the Three-Year Rolling Budget. The concept of this new budgeting system is to enforce forward planning by ministries and departments by obliging them to submit budget proposals covering three years. MOFA,

although statutorily required to present annual budgets, introduced and spearheaded the system in 1996 for the following reasons:

- To enable ministries to identify their priorities which can be carried out within the resources available.
- To make it easier for ministries to focus on medium term goals and the outputs of particular programs in relation to resources that they use.
- To enable accounting officers to ensure that important programs are funded adequately.
- To encourage innovative thinking in the management of public funds.⁷

I attribute the interest in budget formulation and execution, now being shown by most senior officers in the Zimbabwe Defense Forces (ZDF), to be a result of the introduction of the three-year-rolling budget system. Its rigorous implementation should yield better ways of doing business. In particular, there has been marked improvement in program justification as ZDF strives to live within projected allocations as indicated in the three-year rolling budget. For example, the ZDF is now required by the Minister of Defense's instructions to review any new program to ascertain that it is in conformity with its mission and concept of operations, is cost effectively designed, and can be implemented before it is adopted.

2. A Plan of Action and a Statement of Priorities

As mentioned earlier, the budget in Zimbabwe is a plan of how to raise and spend money for the benefit of the public in the form of the Finance and Appropriation Acts respectively.

The Finance Act indicates how the Government plans to raise revenue and how much it plans to raise. It authorizes various departments of the government and private

⁷ Nhemachena, C. R., *Defense Budgeting in a Constrained Economy: Reengineering the Budgeting Process to Meet the Challenge of a Modernizing Zimbabwe Defense Force*, Thesis, 1997.

sector organizations to collect revenue in the form of Pay as You Earn (PAYE), customs duties, licenses, fees for services, sales tax, etc. This money must be paid to the Consolidated Revenue Fund (CRF) from which disbursements can be made. In his 2001 Budget Statement, the MOFA made a number of proposals in the Finance Bill, which included:

- A reduction of tax for companies, trusts and income from trade investment from 35 percent to 30 percent, effective 1 January 2001
- Reducing the tobacco levy from 2.5 percent to 1.5 percent for both the grower and the merchant, effective 1 January 2001
- Increasing individuals' tax-free threshold from \$30,000 to \$60,000 per annum, effective 1 January 2001⁸

The Appropriation Act authorizes government departments to incur expenditures up to specified amounts. Priority areas specified in the 2001 Budget Statement include the following allocations:

- A sum of \$3.5 billion to the Ministry of Health and Child Welfare.
- A sum of \$500 million to MOFED towards meeting the expenses of rolling out the Public Financial Management System (PFMS)⁹ to all ministries.
- A sum of \$2.2 billion to the Ministry of Defense.
- A sum of \$10 billion for Capital Expenditure, the main focus of which is a provision of economic and social infrastructure required to facilitate and support national development.¹⁰

⁸ Makoni, H. S., Budget Statement 2001, Presented to the Parliament of Zimbabwe on Thursday, 16 November 2000.

⁹ The Public Financial Management System is a new computerized system that the Government is introducing to replace the current one which has proved to be unsuitable.

¹⁰ Makoni, H. S., Budget Statement 2001 presented to the Parliament of Zimbabwe on Thursday, 16 November 2000.

3. A Technique for Financial Planning

There are various methods and techniques that organizations employ in making financial plans. These include:

- Incremental Budgeting, which entails using the previous year's budget as a basis of formulating the following year's budget. Increases or decreases are then made as deemed necessary.
- Zero-Based Budgeting, which requires justification of programs year-in and year-out, including ongoing ones.
- Performance Budgets. This method entails analyzing how efficiently the previous budget was managed. Better managers would then get more resources to fund requirements than poor managers.
- Planning, Programming and Budgeting System (PPBS). This method requires the identification of programs/activities which are to be funded, enabling an organization to achieve the best results out of the limited resources at its disposal.

Each of the above methods has advantages and disadvantages. For example, while incremental budgeting is simple to use, it produces poor results. PPBS is complex but produces accurate budgets. There is no single method prescribed in Zimbabwe. Each ministry or department usually adopts a method it deems best. The requirement for justification of programs has resulted in a shift towards PPBS in some departments and Zero Based Budgeting in others. I will discuss these shifts later when discussing ZDF budget formulation.

4. Monitoring Mechanism and Execution Guidelines

The Constitution requires Parliament to ensure that public funds are managed well. The Comptroller and Auditor General (C&AG) has to be appointed, as specified in section 105, to be the scorekeeper on how ministries and departments collect and spend public funds. Subject to section 106 of the Constitution, the duties of the Comptroller and Auditor General shall be:

- To examine, inquire into and audit accounts in terms of section seven.
- To satisfy himself in terms of section eight as to the safeguarding of public moneys and State property.
- To prepare and submit reports in terms of Part IV.
- To grant credits on the Exchequer Account in terms of section twenty-eight.
- To do any other thing required of him by or under this Act or any other enactment.¹¹

Guidelines for conducting business in the public sector are contained in the Treasury Instructions issued and updated by Treasury. These cover actions which must be taken regarding revenue, expenditure, government property and other miscellaneous transactions such as claims against government.

B. DEFENSE BUDGET

1. The Defense Burden – Who Decides?

Throughout the world, defense is one of the indispensable public goods. It therefore contends for funding together with other public goods and services such as education, health, investments in public infrastructure, etc. The amount allocated to defense, or the defense burden as it is sometimes called, is influenced by a country's economic policy, the defense policy and the security situation at any point in time. The economic policy of Zimbabwe, since independence in 1980, has emphasized economic development by investing mainly in infrastructure, education and health. Its defense policy can be summarized as defensive and co-operative to ensure peace internally and within the region in order to create an environment conducive to economic development. The Zimbabwe Defense Forces (ZDF) have been deployed for operations within the region on the following occasions:

¹¹ Audit and Exchequer Act. Chapter 23:03.

- During the internal strife in the early 1980s.
- In support of the Government of Mozambique in its fight against Mozambique National Resistance (RENAMO).
- In support of the Democratic Republic of Congo in the current conflict.

The ZDF participated in these conflicts in pursuit of its “defensive and co-operative policy,” whose main thrust, as published repeatedly by the media citing national leaders, I may summarize as, “to ensure peace within the region in order to create an environment conducive to economic development.”¹² Figure 2.1 below shows Zimbabwe’s military expenditures (ME) as a percentage of Gross National Product (GNP) and Central Government Expenditures (CGE).

Despite these operations, since independence in 1980, military expenditures have been decreasing progressively up to 1996 both as a percentage of Gross National Product (GNP) and Central Government Expenditures (CGE). This means that expenditures by the government on other activities have been increasing. How then does ZDF formulate its budget under conditions of continuous reduction in funding?

¹² Statements by Minister of Defense published by the media in Zimbabwe explaining the involvement of the ZDF in Mozambique, Somalia and the Democratic Republic of Congo.

ZIMBABWE MILITARY EXPENDITURE TRENDS 1977 - 1997

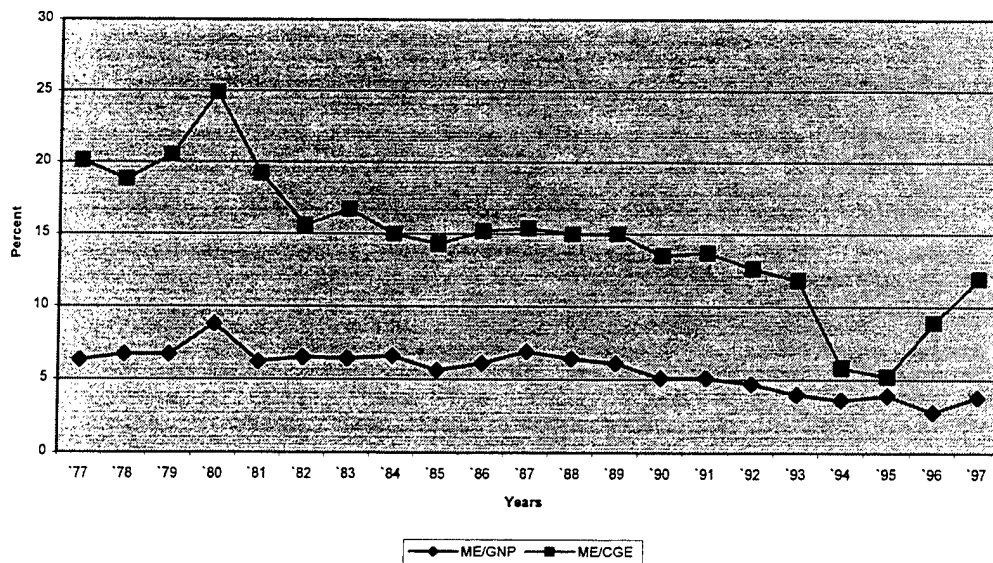


Figure 2.1. Zimbabwe Military Expenditure Trends 1977-1997.

Source: United States Arms Control and Disarmament Agency - World Military Expenditures and Arms Transfers: 1988 to 1998.

2. Budgeting in the ZDF

Budgeting in the ZDF is characterized by a downward push of policies, objectives and directives from the Commander Defense Forces' (CDF) office to the formation level.¹³ The formations convert the policies and directives to programs of action and attach a monetary value to them. These are then consolidated upwards to come up with the ZDF budget. As with all other government departments, this is initiated by MOFA's budget call. I will look at the process in relation to what I believe is a more comprehensive method of budgeting – Planning, Programming and Budgeting System

¹³ A formation in this thesis means a brigade or equivalent that can be mission tasked and is allocated a budget.

(PPBS) - that is used by the United States Department of Defense (DoD) and suggest improvements.

For what purpose is this PPBS? "The purpose of the PPBS is to provide a systematic and structured approach for developing a budget that supports the national security strategy.... Its ultimate objective is to provide the operational commanders with the best mix of forces, manpower and equipment within resources available."¹⁴ In the following paragraphs, I now relate the budgeting formulation process in Zimbabwe to PPBS.

a. Planning

The National Defense Policy (NDP) is the policy document resulting from the National Security Strategy. It provides an assessment of the "Strategic Security Environment" in the global, regional and internal context and makes judgments that require ZDF action. From the NDP the Commander Defense Forces (CDF) – who is located at Ministry of Defense (MOD) and, together with his staff, contributes towards the NDP – carries out the "Military threat analysis" and formulates appropriate strategies to deal with the envisaged threat. A plan of action that takes into account the force structure and capabilities constitutes the CDF's directive to the Commander of Zimbabwe National Army (CZNA) and the Commander Air Force of Zimbabwe (CAFZ), both of whom contribute to the document.

Unlike the DoD planning phase that is integrated with the programming and budgeting systems, the ZDF one is devoid of such linkages. Furthermore, its planning

¹⁴ Hleba, T., *Practical Financial Management: A Handbook of Practical Financial Management Topics for the DoD Financial Manager*, United States Naval Postgraduate School, 2000.

process tends to be an annual event triggered by the call for budgets by MOFA and terminated by the production of the CDF's plan of action. The lack of linkages is partly evidenced by overspending on some budget items before the end of the financial year while others still have funds.

While the DoD's planning stretches over several years as determined in the Future Years Defense Program (FYDP), the adoption of the forward planning concept by the ZDF – which is highly recommended - can only be extended over three years in keeping with the three year rolling budget.

b. Programming

Each component of the ZDF, i.e., ZNA and AFZ, uses the CDF's directive to come up with specific programs. The programs are further broken down into tasks or mission statements - such as to maintain or attain a certain operational proficiency level – and passed down to the formations. The formations, in turn, will come up with specific tasks of their own from which they determine the manpower, equipment and funds they require for the year. The total of the formations' requirements and major equipment procurement – centralized at the service level and the MOD level – constitutes the ZDF budget requirement.

The ZDF “programming” tends to be a tasking exercise. It shows no evidence of continuity, integration and forward planning but is given in chunks. On the contrary, the programming phase should be aimed at producing some forward-looking plan of action as typified by the DoD's Program Objective Memoranda (POM).

Thus, the purpose of the programming phase is to produce a Program Objective Memorandum (POM). The POM is each component's plan on how they will

allocate their resources (forces, manpower and dollars) over a six-year period.¹⁵ To come up with the POM, the DoD consults widely and the top-level leadership, including the Secretary of Defense, is involved to ensure agreement and availability of funding in future.

Because of the annual submission of the budget concept used by the ZDF, it is not conceptually feasible or economical to set up structures to do one-year programs. To instill a culture of programming, I suggest that the ZDF use the three-year-rolling budget figures given to it by MOFED to come up with realistic programs. Taking such an initiative would impress on the purse-holders the seriousness with which the ZDF does business and indicate the future it has charted.

*c. **Budgeting***

As mentioned earlier, each service simply sums requirements of various formations and those of its headquarters. The consolidated requirement is then reviewed and adjusted to make sure that it is within range of the indicated annual budget figures.

The two service budgets are consolidated at MOD and reviewed further. A final draft is then submitted to MOFED as the MOD budget proposal for the following year. MOFA will make amendments to the submission (consulting, of course, with MOD) as necessary. When the Finance and Appropriation Bills are signed, whatever amount was proposed for MOD becomes the budget for the following year.

Compared with DoD, the procedure is almost identical. A major point to note is the important role of the Budget Estimates Submission (BES) in updating the

¹⁵ Hleba, T., *Practical Financial Management. A Handbook of Practical Financial Management Topics for the DoD Financial Manager*, United States Naval Postgraduate School, 2000.

FYDP. This is not possible in the case of the ZDF, as the responsibility for forecasting the following two years rests with MOFED. As mentioned earlier, under such circumstances I would propose that ZDF take the initiative to put forward its future years proposals/programs so that they can be considered early in NECP's deliberations.

C. ZDF BUDGET STRUCTURE

The ZDF budget can be looked at from two perspectives. The first one is the manner in which the important issues of readiness, recapitalization, and infrastructure are addressed. The second is how the budget is structured in terms of its division into accounting classifications. Both are discussed below.

In coming up with the ZDF budget, the CDF pays particular attention to the following:

- Readiness – troops' level of operational preparedness and the speed with which they can accomplish assigned missions at any given time
- Recapitalization: - technology, hardware and equipment to be invested in order to ensure that current and future operational capability are guarantee
- Infrastructure - resources to ensure current and future operations and the maintenance of morale

The balanced allocation of resources within the military budget has always proved to be a nightmare, especially under the continued reduction in funding. As funding was reduced, the ZDF realized that the ratio of salaries to capital equipment procurement and other expenses kept increasing. In 1994, salaries consumed 55 percent of the ZDF budget. This rose to 78 percent in 1998.¹⁶ To address the situation, a strategy to reduce manpower in order to create the capacity to increase capital and other procurement was adopted. The

¹⁶ Nhemachena, C. R., *Defense Budgeting in a Constrained Economy: Reengineering the Budgeting Process to Meet the Challenge of a Modernizing Zimbabwe Defense Force*, Thesis, 1997.

results of this strategy will take time to realize, as evidenced by the fact that in 1999 and 2000 salaries consumed 72 percent and 70 percent of the ZDF budget respectively. Projections are to reduce this to 65 percent of the budget by 2002.¹⁷

Current trends in the military are towards technologically advanced armies. According to a commonly used ratio of military expenditure per member of armed forces (ME/AF), which is a measure of operational and investment-type outlays per serviceman and can serve as a rough overall indicator of military technological level, there is evidence of an increase in this ratio. For example, this ratio has increased from 1987 to 1997 per serviceman as follows: in North America from \$154,900 to \$161,700; in East Asia from \$15,000 to \$25,000 and in Central Africa from \$4,200 to \$8,700.¹⁸ The ZDF ratio of \$5,600 in 1997 was lower than that of the Central Africa ratio of \$8,700. Zimbabwe should strive to increase its ratio in order to maintain a force capable of defending its national interests while reducing its salaries bill. To do this, there may be need for further reductions in manpower, to fund technology.

Regarding the accounting classification, the ZDF budget structure follows the standard laid down by MOFED. All expenditures from voted funds must be classified under the appropriate sub-heads¹⁹ and items²⁰ as shown in the estimates. If any question arises as to proper classification of a charge it shall be referred to the Treasury whose

¹⁷ Zimbabwe Budget Estimates for Year ending December 2000.

¹⁸ United States Arms Control and Disarmament Agency. *World Military Expenditures and Arms Transfers*, 1988-1998.

¹⁹ An account classification given by Treasury. See Figure 2.2.

²⁰ A break down of sub-head as given by Treasury. See figure 2.3.

decision shall be final.²¹ Figure 2.2 shows the ZNA classification by sub-head, while figure 2.3 shows MOD's sub-head A divided into items to provide an example of how sub-heads can be divided.

SubHead	Description of Account
A.	Salaries, wages and allowances
B.	Subsistence and transport
C.	Incidental expenses
D.	Motor transport and mechanical equipment
E.	Stores and clothing
F.	Barrack services
G.	Training
H.	Grants and compensation
K.	Furniture and equipment
L.	Construction

Figure 2.2. ZNA Accounts Classification by Sub-Head.

The classification of the accounts constitutes the monitoring and accounting vehicle of all programs and activities within the ZDF and indeed the whole of Zimbabwe. In my view, this kind of classification of accounts is not suitable for implementation or monitoring of projects or programs. First, a project/program requires various resources such as transport, training, correspondence, stationery, etc, to name a few obvious ones. According to this classification, the amounts of these different activities for any particular program have to be lumped with amounts of other programs with a diversity of activities as well. The result is a lot of programs/projects drawing from the same accounts. This is

²¹ Treasury Instructions section 0950.

obviously a recipe for disaster. Second, monitoring of programs is difficult and may lead to expenditure overruns.

A.	Salaries, wages and allowances
	Salaries and wages
	Minister of Defense
	Secretary, other officers and employees
	Civilians: Zimbabwe National Army
	Civilians: Air Force of Zimbabwe
	Allowances
	Cash in lieu of leave

Figure 2.3. MOD Sub-Head A.

The accounting system in Zimbabwe is therefore not suitable for funding and managing programs /projects as separate entities. Yet the ability to initiate, fund and manage projects /programs individually is fundamental in implementing PPBS. Because of the place it occupies and the breath of its influence, Treasury must take a lead to create an accounting environment that encourages and promotes better planning and management techniques. It must also play a central role in budget execution that I discuss in the next chapter.

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III. BUDGET EXECUTION

According to Jerry McCaffery,

The act of budgeting is a planning process. Budget execution is a management process. In budget execution, agencies obligate funds in pursuit of accomplishing their goals.²²

In Zimbabwe, budget execution confirms this view and is the accomplishment of the budget or plan through proper spending of voted funds by all ministries and departments. This chapter will discuss budget execution by looking at:

- How funds flow down to the users through the accounting system
- The organizations charged with the disbursement of funds and the part they play in the expenditure cycle
- Disbursement of funds
- The impact of these activities on Government operations

A. FUNDS FLOW AND APPORTIONMENT

As soon as the President signs the Finance and Appropriation Bills into law, the Ministry of Finance and Economic Development (MOFED), through the Treasury, publishes the amounts appropriated to ministries and departments.

Each ministry or department that is appropriated money by Treasury is considered to be a "vote" and allocated a number. For example, the MOD is "vote 4," consisting of MOD Head Office, ZNA and AFZ as separate departments. In turn, departments break down their apportionment and allocate portions to users. In the ZNA the users are usually formations.

²² McCaffery, J., *Features of the Budget Process: Handbook of Government Budgeting*, Jossey-Bass, 1999.

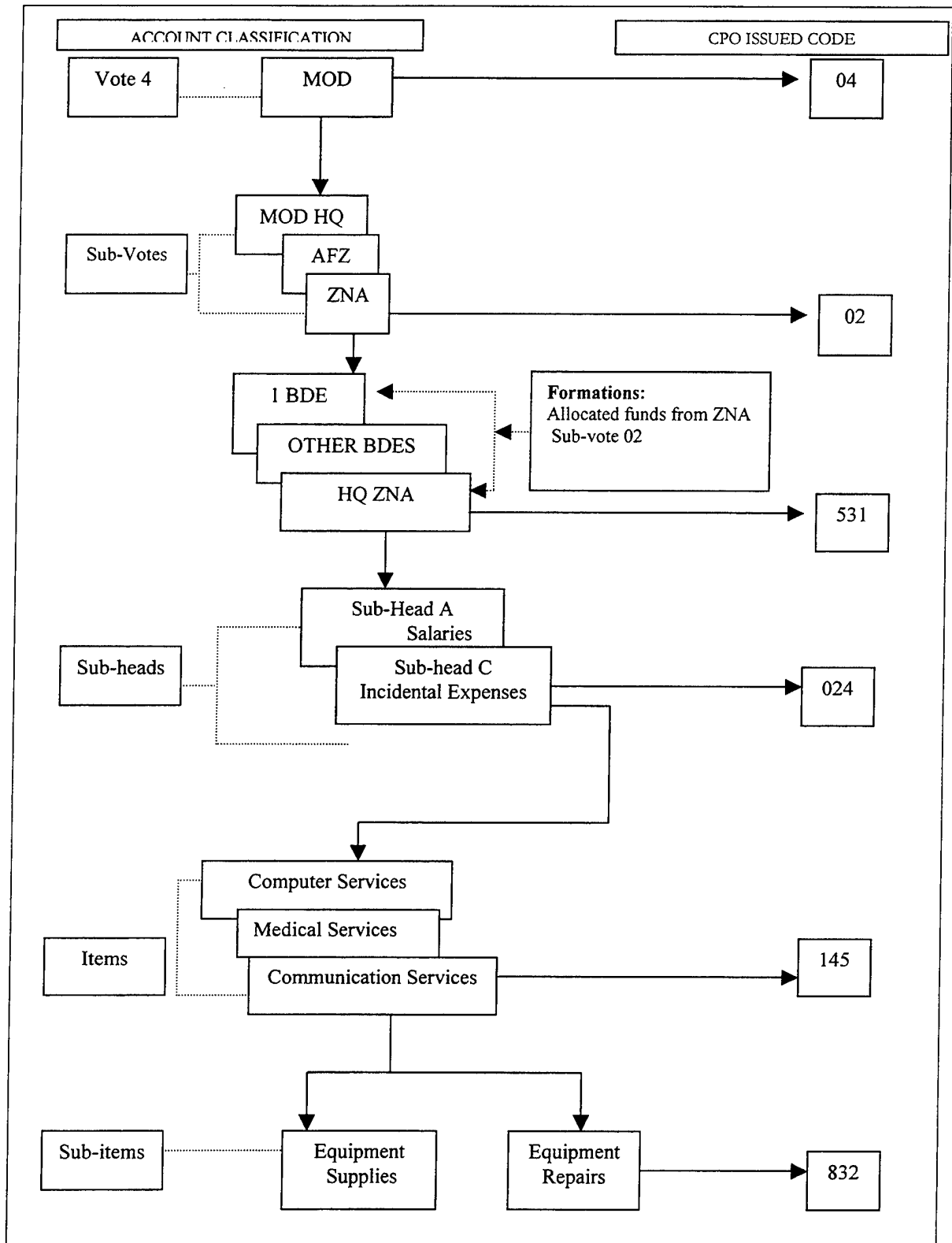


Figure 3.1. Example of Funds Disbursement, Account Classification and Codes Allocation by CPO.

The flow of funds and apportionment is achieved by a systematic issuing of spending authorities to lower levels in keeping with the Treasury classification. Figure 3.1 is an example of how MOD funds flow and apportionment is done through the various levels of vote, sub-vote, sub-heads, items and sub-items. At each level, the Treasury, through the Central Payment Office (CPO), allocates a computer code

Thus, the MOD budget, which is "vote 4," may be allocated code 04 by the CPO. The vote is further broken down to sub-votes, which are budgets for departments. The three departments, MOD Head Office, ZNA and AFZ, are each allocated a code. In Figure 3.1, the ZNA sub-vote 02, is broken down (allocated) to formations that are shown by the names 1 Brigade (1BDE), Headquarters ZNA (HQ ZNA), and all other brigades (OTHER BDES).

The next level is accounting code. HQ ZNA, for example, is "accounting code 531". Each sub-vote is broken down into account classifications called sub-heads. The ZNA account classification is shown in Figure 3.1. In Figure 3.1 sub-head C is code 024 and is broken down into items and sub-items and is allocated codes 145 and 832 respectively. The allocation of codes facilitates control, accounting, and transfers of funds between accounts.

By the beginning of the financial year, all ministries and departments are aware of the total amount available to spend for the year and on what it is to be spent. The Treasury determines both the rate of expenditure and the manner in which expenditures are incurred through Treasury instructions. Thus, according to the Audit and Exchequer

Act, Chapter 22:03, Section 24(1), notwithstanding anything to the contrary contained in any other enactment:

- No payment involving a charge upon the Consolidated Revenue Fund shall be made without the written authority of the Treasury;
- No expenditure of public moneys shall be incurred on any service unless provision therefore has been made by or in terms of this Act or any other enactment.

B. ORGANIZATIONS AND FUNCTIONS

The organizations that are involved in budget execution are the Central Payments Office (CPO), Government Tender Board (GBT), formations, and the finance offices of ministries and departments.

1. The Central Payments Office

The CPO falls directly under the MOFED and is charged with the following:

- To provide a means through which Government disburses funds
- To pay all government bills
- To maintain accounts for funds allocated to ministries and departments
- To produce management reports

At this point, it is important to point out that the CPO computer is a mainframe that was acquired in the early 1970s. Like other “mainframe-based budgeting and accounting applications, it has major problems that include: limitations on capturing new information, inability to expand the system, difficult in sharing, accessing, and analyzing information, loss of useful data, inflexible budget formats, delayed production of reports, etc.”²³ Despite these problems, CPO roles have increased over time to include expenditure control because of the central position it occupies. A detailed account of the

²³ Miranda Rowan, *Information Technology for Financial Managers: Handbook of Government Budgeting*, Jossey-Bass, 1999.

operations at CPO and their impact on the government activities will be discussed later in the chapter.

2. Government Tender Board (GTB)

The GTB falls under the Minister of National Supplies and is charged with procuring goods and services for all government departments from public funds where these services are not available within departments responsible for providing them.²⁴ For example, if the ZNA wanted to enter into a contract for the supply of various types of tires for its fleet, it would furnish GTB with its requirements. GTB would then invite tenders, adjudicate and award the tender to the best bidder. A contract for the supply of tires would then be signed between the suppliers and ZNA with GTB oversight.

The supplier would then supply the tires to the ZNA. The ZNA inspects the supplies and accepts the supplier's invoice and processes payment through its finance offices.

3. The Formations

Formations are self accounting units within the ZNA.²⁵ To get services, formations operate in the same way as the GTB. They are allowed to contract for certain goods and services from both the public sector and the private sector. These include such goods as perishable rations, printing and stationery and services such as maintenance of buildings and other government infrastructure.

To get goods and services from the private sector, the formation logistics officer calls for tenders from a list of approved suppliers and selects the best supplier. A contract

²⁴ Treasury Instruction 1003.

²⁵ A self accounting unit is an establishment allocated a budget.

is signed with the winner, who supplies the goods or services, submits invoices and gets paid when the CPO pays invoices.

For goods and services from other government departments, the department responsible is requested to supply the goods or services. Instead of the normal invoice, an inter-departmental certificate (IDC) is issued specifying the goods or services rendered and the amount. The IDC is then passed to the finance office, which signs it to show acceptance, and forwards it to CPO for charging the receiving department and paying the service provider.

4. Finance Offices

The finance offices fall directly under a Ministry or department accounting officer.²⁶ There are no fixed structures for finance offices. These depend on the nature and disposition of the ministry or department. For example, the ZNA has about 10 finance offices. These offices report to the Director Army Finance, at Army Headquarters, who in turn reports to the Director General Finance, at ZDF Headquarters on technical matters and to CZNA on policy matters.

The function of these offices is to ensure that Treasury Instructions, Treasury Circulars and Accounting Procedures Manuals are followed during budget execution. They also monitor expenditures, originate vouchers to effect payments for goods and services consumed by their departments and produce monthly statements on the state of the public funds under their charge.

²⁶ The accounting officer is the person charged with ensuring that government funds are spent for the purpose for which they were appropriated and that all rules and regulations pertaining to their use are followed. He is usually the Secretary in a ministry. In the MOD, the CZNA and CAFZ are accounting officers and the Secretary of Defense exercises oversight functions only.

C. DISBURSEMENT OF FUNDS

Since 1980, the Treasury has centralized the disbursement methods at CPO in order to avoid the over-expenditure of appropriated funds. This centralized control has resulted in undesired outcomes such as delays in effecting payment, fraud, poor management and failure to curb over-expenditures. To bring out the underlying problems in the disbursement of funds it is necessary to look at how payments are processed by finance offices and effected by the CPO.

1. Payment Process by Finance Offices

As mentioned earlier, finance offices process payments for both private and public suppliers of goods and services.

a. Services from the Private Sector

For services from the private sector, as soon as authority to purchase is received from the GTB or the formation, a commitment is manually entered in the commitment register against the account where funds will be paid when delivery is made. This process enables expenditure monitoring that is necessary to avoid over-expenditure.

After the services have been rendered, the receiver of the services endorses the invoices and forwards these to the finance office. The finance office scrutinizes the invoices, checks the accuracy of computations, confirms legitimacy of the order of services against tender documents, checks that the amount on the invoice corresponds to that already committed and prepares a voucher for effecting payment at CPO. It is at this stage that the account from which payment is made is coded onto the payment voucher. For example, if the ZNA was paying for telecommunication repairs,

according to Figure 3.1, it would charge code 0402531025145832. The code should have sufficient funds to meet the bill.

Every two weeks, vouchers are batched and transmitted to CPO where checks are prepared and paid to recipients. The fact that vouchers are submitted to CPO only twice a month means that payments have to be delayed to conform to the program.

b. Inter-governmental Services

Following a request of services from another government department, a quotation is received and used to make a commitment. When the services are rendered an IDC is received from the government department that has provided the services. It is scrutinized for accuracy, authenticity, etc, like any invoice from the public sector before a funds transfer document is compiled and forwarded to CPO. The transfer document also details the account from which the transfer is to be made and the payee department. After the transfer, subsequent accounting procedures follow the standard laid down.

The ZNA has hundreds of customers and generates thousands of transactions of this nature that have to be paid by CPO. Other ministries have similar transactions and the sum of these results in millions of transactions, all requiring CPO action. Because of errors that may be created under such circumstances, monthly reconciliation of accounts has to be done.

2. Bill Payment and Expenditure Control by Central Payments Office

Only one of the roles of the CPO enumerated under organizations and functions, the issuing of accounting codes, has been discussed under funds flow and apportionment. The other roles, payment of government bills, maintaining accounts for ministries and

departments and the production of management reports will now be discussed together with the recently introduced role of expenditure control through a stop-payment system.

a. Payment of Bills

On receipt, payment vouchers or IDCs from a ministry are batched and passed onto operators who punch payment details. At the end of the month, checks are printed and sent to suppliers. In the case of IDCs, only book transactions are necessary. The recipient's allocation is reduced and that of the service provider increased.

Although the payment system is supposed to flow smoothly and effect payments on time, in reality, this is not what is happening. There are a number of reasons why delays and errors occur. First, the transmission of payment documents from formations to the CPO is by post. If a CPO deadline is missed, the documents will have to wait for the next month's cycle. This lengthens the time between the receipt of services and payment. Currently this process takes at least a month.

Second, details of payments are captured manually onto payment vouchers increasing the chances of error. For example, an account-coding mistake by one digit results not only in non-payment but also in a wrong account being charged. A mistake by one digit on the amount results in non-payment, over-payment or under-payment. Problems of this nature that require investigation and resolution, happen more in a manual system.

Third, the convergence of all government payment documents at the CPO, which has a comparatively small and fixed capacity, creates a bottleneck. Because of its fixed, capacity any unprocessed or wrongly processed payments requiring subsequent

correction contribute towards an ever-increasing backlog. This leads to late payment to providers of goods and services.

b. Ministry Account Maintenance and Report Production

Besides maintaining Treasury ledger accounts of ministries and departments and payment of bills discussed above, CPO also maintains individual ministry and department accounts. This function is performed when CPO operators punch payment details when paying bills.

Transactions regarding individual accounts are captured and posted to appropriate accounts by the computer. Printouts of all transactions and account balances are produced at the end of the month. These are passed to the ministries and to management at MOFED.

By accumulating and aggregating transactions, the CPO produces monthly management reports. At the same time, "Accounting officers shall prepare and render to the Treasury and the Comptroller and Auditor-General by the fifth working day of the following month a summary of the expenditure met from votes under their control in such form as the Treasury may require."²⁷ Thus, two different monthly reports are produced. The differences are caused by the fact that CPO reports only those transactions that have been inputted for payment, while ministry reports include contractual obligations and services received but not yet paid at CPO. This difference has been increasing as work in process - vouchers between ministries and CPO - has continuously increased.

For the ministries, the increase in unpaid vouchers constitutes failure to spend and reflects inability to pay suppliers. Moreover, these unpaid vouchers, which are

called carry-overs, are required to be paid first from the following year's appropriation. By entering into more contracts, they stand a chance of receiving services and spending their budgets, hence the impetus to overspend. On the other hand, Government wants to reduce over-expenditure. This has led to the introduction of the stop payment system.

c. Stop Payment System

The stop payment system entails a strict and planned expenditure plan by ministries broken down in months and by account. At the beginning of the year, each ministry produces monthly expenditures/ targets for the year. These targets are captured by CPO and constitute funds available for disbursement from each account. Any payment voucher submitted for payment that does not have a target is not paid.

Noble though the idea is, it requires real time capability and accuracy in order to be effective. Neither is available, as a result of which the system has created more problems. For example, delays in paying suppliers has worsened due to non-payment of bills resulting from lack of funds in a particular account arising from targets capturing mistakes. These payments can only be effected after correction of targets. Such problems and others discussed earlier have impacted negatively on government operations.

D. IMPACT ON GOVERNMENT OPERATIONS

The disbursement system in Zimbabwe has created problems that include, delayed payment of suppliers, overspending and carryover by ministries and regular fraud at CPO and ministries²⁸. Some of these problems are discussed below.

²⁷ Treasury Instruction 1222.

²⁸ These problems (which flow from the discussion above) have also been listed in slides dealing with

1. Delayed Payment of Suppliers

The delay in paying suppliers means that the suppliers themselves end up with a lot of their working capital tied up in government debts. This creates liquidity problems resulting in losses. To avoid these losses, some suppliers such as Bata Shoe Company, a major supplier of footwear to the ZDF, now demand down payments on contracts. Because of the strict cash controls currently in place, this is not always possible. Under such circumstances, it is not uncommon to find troops buying boots for themselves instead of waiting for the government to purchase them. Other suppliers of services such as the Zimbabwe Electricity Supply Authority have unilaterally discontinued services. This has led to destruction of large quantities of food and medicines which all cost money.

2. Overspending and Carryovers

Overspending by ministries has resulted in cash flow problems for the Government. This further reduces its ability to honor its debts on time and erodes public confidence. Moreover, the Government ends up borrowing money. These borrowings crowd out the private sector and increase the budget deficit and usually take away resources from developmental programs.

As mentioned earlier, where a ministry has received services and fails to pay for them in that year, the expenditure carried forward is paid from the ministry's following year appropriation. At the same time any unspent money reverts to government at the end of the year. Given the current situation where ministries cannot effect payment for

the introduction of a new payments system called Public Financial Management System (PFMS) to replace the current. Efforts to get more details on the new system have been unsuccessful.

services received but have to await action by CPO, carryovers are bound to persist and continue to disrupt government plans. This failure to control expenditures has contributed to erosion of public confidence in the government.

3. Fraud at CPO and in Ministries

The system is susceptible to fraud and mistakes at both CPO and in the ministries. This has resulted in a lot of effort and resources being spent on detecting both fraud and mistakes as opposed to developing systems that minimize their occurrence and perpetration. Fraud is cancerous. Constant questioning and lack of confidence in government accounts by other interested stakeholders have been intense and require positive government action to find lasting solutions.

In the next chapter, I will examine these issues, suggest how these problems might be solved, draw conclusions and make recommendations.

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IV. ANALYSIS CONCLUSIONS AND RECOMMENDATIONS

To identify the underlying causes of poor budget execution, an analysis is necessary. After carrying out the analysis, possible solutions are suggested. These form the basis of the recommendations and conclusions. I will show that the processes, both manual and computerized, the procedures, and the organizational framework require changing. I will then end the discussion on budget execution in Zimbabwe by recommending the adoption of better technology and changes to processes, procedures and some statutes.

A. ANALYSIS OF BUDGET EXECUTION

1. Technological Processes

Budget execution in Zimbabwe is a combination of manual and computerized processes. The manual processes cover the request for goods and services from both private and Government departments, the award of the tenders to supply the goods and services, the certification of receipt of the goods and services, the preparation of payment vouchers by finance offices, the transmittal of the payment vouchers to the Central Payments Office (CPO), the entering of the payment details into the CPO computer and the subsequent payment by check to suppliers. The computerized processes cover the printing of checks, the stop payments system, the maintenance of the ledger accounts and the production of reports.

How have these processes contributed to the problems the Government is facing? The manual processes are time consuming by their nature. This contributes to delays in making payments to suppliers.

Second, there are many steps that require re-casting of invoice totals and payment vouchers and transcribing these throughout the disbursement process. These manual calculations and repeated copying of data lead to mistakes that usually result in erroneous payments, non-payment and fraudulent payments. These resultant mistakes (which require correction) end up complicating and increasing the workload. Until corrected the statements are inaccurate and inappropriate for decision- making.

Third, the process of effecting payment at the CPO is accomplished by manually entering payment voucher details. The computer then automatically generates checks and reports. Except for a creditor number that is generated when a supplier is awarded a contract, there is no mechanism built into the computer system to authenticate the validity of a payment. Moreover, the system does not allow access by interested parties who may have picked up fraud or mistakes from the CPO generated monthly printouts and reports. These are usually discovered when reconciliations are conducted, by which time it will be too late to take corrective action. Thus the current centralized computer payment system is vulnerable to fraud.

Fourth, during the month both the CPO and the finance offices are engaged in acquiring and capturing data. Reports are produced at the end of the month and at times well after the end of the month. Interim reports are not produced or take too long to produce when required. The result is a lack of information on which management can make timely and informed decisions. Effectively, management is always reactive rather than being proactive in terms of financial management.

On the whole, the entire execution process (the manual and old computerized system) is obsolete and inappropriate to meet the demands of current private business and

Government activities. Miranda identifies these "legacy systems" as having technological deficiencies that include limitations on capturing new information, an inability to expand, untimely data production, difficulty in sharing, accessing and analyzing information and functional deficiencies that include fragmentation of financial tasks, loss of useful data, proliferation of conflicting information, poor budgetary controls and late production of comprehensive annual financial reports.²⁹

To solve these problems, governments are increasing investments in information technology (IT) for budgeting and other financial management functions. These integrated financial management systems (FMS), based on a client-server network relationship, enable end-users to input, store and access data, call the data onto desktops and manipulate it for decision support information or investigation from their remote locations. These capabilities eliminate errors, delays in production of reports, data loss and management information starvation. Some FMS have internet capabilities and carry out electronic commerce. For example, DoD Financial Management Regulation Volume 5 Chapter 24, deals with Electronic Commerce and the mandatory implementation of Electronic Funds Transfer (ETF) by 1 January 1999. While implementation of the latest technological processes may be difficult in Zimbabwe because of budgetary and infrastructure limitations, this is the only way forward. The continued use of obsolete technological processes is certainly not the answer. There is a need to adapt to new ways of doing business.

²⁹ Miranda, R., *Information Technology for Financial Managers: Handbook of Government Budgeting*. Jossey-Bass Inc., 1999.

2. Legal Procedures

Government procedures have contributed to some of the problems the Government is facing. Procedures worth noting are the requirements that any monies unpaid at the end of the fiscal year be returned to the Treasury and that any commitments entered into by departments that are unpaid at the end of the financial year be paid from the departments' next year budgets. Under the prevailing situation where payments take so long and can only be effected by the CPO, these procedures warrant being changed in order to avoid over-expenditures and carry-overs.

In the previous chapters, it has been shown that the Government intends that ministries and departments start spending when they have been appropriated funds. They should also spend only for the purpose and to the extent funds were made available. It therefore follows that commitment of funds for any particular year should start after the appropriation. Because of the lengthy payment process, it is difficult (if not impossible) to effect payments during the first month (and in many cases during the second month) for goods and services sourced at the beginning of the year. Thus there is a time lag of about two months between committing the government and payment. Under these circumstances, ministries have always found themselves with approximately two months worth of unliquidated commitments on one hand and unexpended/expired appropriations on the other by the end of the year. This, in effect, means ministries have always been forced to charge their future appropriations by the amount of commitments entered into but not yet paid at CPO while losing the benefit of the unspent appropriation.

Since commitments entered into will still be paid for from future appropriations, ministries and departments have tended to concentrate on finding ways to spend their

budgets rather than reducing over-expenditure. The strategy frequently adopted is future buying. This entails processing payments in excess of appropriations to the CPO - which stops paying when all funds are spent. This "solution" however entails over-committing the Government and can result in over-expenditure.

A possible solution to this problem is to allow expired appropriations to be charged with commitments already made though unpaid at the end of the year. This method is employed in the United States. According to DoD Financial Management Regulation, Volume 3 Chapter 10, "For 5 years after the time an appropriation expires for incurring new obligations, both the obligated and unobligated balances of that appropriation shall be available for adjusting and liquidating obligations properly chargeable to that account."³⁰ The adoption of such a procedure solves problems of overspending and carryovers by increasing the time transactions can be carried out and reducing the penalty involving unpaid commitments. For a Government with cash flow problems like Zimbabwe, the duration that an expired appropriation would be available could be reduced to a shorter period than 5 years to ensure that funds are not tied up for unnecessarily long periods.

3. Organizational Framework

The organizational framework of budget execution deserves some comment. While the structure is clearly defined, there appears to be some overlap in responsibilities regarding execution. According to the various statutes discussed in Chapter Two, it is the responsibility of each ministry to control the expenditures of its appropriations and

³⁰ DoD Financial Management Regulation, Volume 3, Chapter 10, 2000.

produce end of year financial statements. Over time however, the MOFED has usurped some of these powers by centralizing control of expenditures through the CPO.

This has been done through the stop payment system and the fact that only the CPO has the responsibility to effect payment. Thus, regardless of whether a ministry is able to push its payment vouchers on time to the CPO, the inefficiencies at the CPO ultimately affect the ministry's capability to pay suppliers on time. Disregarding commitments made by ministries at the end of the year and centralizing payments and control has resulted in the ministries losing both expenditure control and the ability to make timely payments to suppliers. This perpetuates the problems the Government is facing.

The solution to this problem may lie in enabling ministries and departments to control their own destiny by providing them with the resources to be able to effect payments as soon as possible. Thus the functions of manually entering payments at the CPO could be decentralized to line ministries given appropriate technology. This in turn would speed up the entire payments process and contribute towards overall Government efficiency.

This approach is a radical departure from the present system and entails a completely different way of doing business – re-engineering. It necessitates investment in new technologies, changing current processes and empowering decision makers at all levels by providing them with timely relevant information thereby making the ministries and departments responsible and accountable for their activities. The fact that the Government is implementing a new financial management system by purchasing a new

computer system that will be linked to all ministries indicates that the current organizational framework hinders effective and efficient budget execution.

An example of a FMS that can be adopted with modification is the Defense Finance and Accounting Service (DFAS). This system of systems is a combination of computerized integrated accounting systems with five major offices throughout the United States. In turn each major office services several operating locations. Transactions are done instantaneously through the Fund Administration and Standardized Document Automation System (FASTDATA). In Zimbabwe, the planned PFMS could be centrally controlled by Treasury but linked to all other ministries. Payments functions could be decentralized across the country in major cities. These would serve the operating locations and finance offices. The operating locations should have data entry and manipulation capabilities thereby speeding up transactions and reports generation.

B. CONCLUSIONS

From the analysis above, it is evident that the manual processes and obsolete computer system contribute towards poor Government performance because they are slow, susceptible to losing vital data, prone to errors, and do not generate timely management information. The continued use of such processes will lead to more problems. To solve current and forestall future problems, it is therefore necessary to adopt new processes and technologies. The Government has realized this as evidenced by the introduction of the Public Finance Management System.

The requirement that all expired appropriations be returned to the Treasury, while unpaid obligations/commitments be paid from the following appropriations, encourages over-expenditure by ministries and departments. Because of the long time between

contracting and effecting payment, obligations take unnecessarily long to liquidate. It is therefore necessary to amend the statutes to allow the time needed for processing payments through the system.

While ministries are required to exercise financial control over their budgets, their ability to do so is undermined by the fact that the power to control expenditures and to effect payment are vested in the CPO because it is the most technologically suitable organization for the role. To ensure active participation by ministries these new methods of doing business have to be adopted.

C. RECOMMENDATIONS

The recommendations that follow are based on the analysis and conclusions arrived at above. These indicate that the processes and resources used in Zimbabwe are antiquated and some statutes encourage over-expenditure. I therefore recommend the following.

First, the Government should continue the investment in a PFMS that addresses current problems. The system should be decentralized to all finance offices, management and policy makers, easy to use, capable of manipulating data and generating reports. It should be capable of integrating budgeting, the Government General Ledger, the purchasing system, human resources and all other accounting and reporting systems. Because of constant technological advancement, the system should be interoperable with different technologies, adaptable and scalable to facilitate expansion as Government operations change.

Second, at the end of the fiscal year, ministries still hold a lot of unpaid commitments/obligations. To be able to effect payments that relate to the expired

appropriation, there must be sufficient "spending time" where the expired appropriation is open for unpaid obligations relating to it. It is therefore necessary to change the current statutes that require the immediate return of expired appropriations to the Treasury and the payment of commitments that remain unpaid at the end of the fiscal year from future year appropriations.

Finally, I want to end the discussion on budget execution by recommending a continuous review of processes, procedures, rules and regulations, etc. with a view toward adapting to an ever-changing environment.

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